

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Oakland Cty Community Mental Health Auth	County Oakland
Fiscal Year End September 30, 2007	Opinion Date February 25, 2008	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) A-133 Report	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 810-767-5350		
Street Address 111 E. Court St., Suite 1A		City Flint	State MI	Zip 48502
Authorizing CPA Signature 		Printed Name Tadd Harburn		License Number 1101014134

**Oakland County Community
Mental Health Authority
Auburn Hills, Michigan**

**Financial Statements
September 30, 2007 and 2006**

Oakland County Community Mental Health Authority

Contents

Letter of Transmittal	1-2
Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-9
Basic Financial Statements	
Statements of Net Assets - Proprietary Funds	10-11
Statements of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	12-13
Statements of Cash Flows - Proprietary Funds	14-15
Notes to Financial Statements	16-25
Supplemental Information	
Statements of Revenues, Expenses, and Changes in Fund Net Assets - Enterprise Fund - Budget to Actual	26-27
Schedules of Administrative Expenses - Enterprise Fund - Budget to Actual	28-29

Letter of Transmittal

History of the Oakland County Community Mental Health Authority

Public Act 54 of 1963

In 1963, the Michigan Legislature passed Public Act 54 that permitted counties to establish local, community-based mental health outpatient programs funded by the State and the county. The County of Oakland promptly took advantage of the new legislation, becoming the *first* county in the state of Michigan to establish a community mental health services board. The board held its first meeting on December 13, 1963. It is now one of 46 such boards covering the 83 counties of Michigan.

The Mental Health Code: Public Act 258 of 1974

The year 1974 saw the publication of the first Michigan Mental Health Code, also known as P.A. 258. Under the code, a county or combination of counties could elect to establish a CMH program, operated under the auspices of a community mental health board consisting of 12 members appointed by the county commissioners for three-year overlapping terms. The statute required each CMH board to submit an annual plan and budget to the Department of Mental Health for approval. The required state financing was changed to an appropriation of 90 percent state funds with the counties responsible for the remaining ten percent.

With the rise of community-based care, the primary responsibility for providing that care shifted from the State to the CMHs. This transition occurred in stages. In 1981, the then Michigan Department of Mental Health (MDMH) began offering CMHs “shared management” contracts whereby CMH shared responsibility with the State for planning and coordinating public mental health services. The MDMH also began offering “full management” contracts wherein the entire responsibility for providing public mental health services was shifted to the CMHs. This movement began in 1981 with four full management contracts. Oakland County was one of the *last* to sign a full management contract with the State. Oakland County entered into its first full management contract in 1994. Full management offered “trade off” dollars to build the local CMH budget because the funds that were used to support individuals in institutions were transferred to the CMH, which could then use any savings from consumers who moved into the community at less cost than the state facility rates.

The Revised Mental Health Code: Public Act 290 of 1995

An extensive revision to the Mental Health Code was undertaken in 1995 with Public Act 290 of 1995, which took effect March 28, 1996.

There were four major categories of changes in the revisions to the Mental Health Code:

1. Creation of a Mental Health Authority
2. Improved accountability of system (e.g., certification/accreditation and person centered planning)
3. Significant increase in consumer involvement as demonstrated by the requirement of 1/3 consumers on all CMH boards, as well as on the state advisory council
4. Inclusion of a new chapter regarding due process for recipient rights, including provisions for both local and appeals

Under the revisions, Community Mental Health Services Programs could be organized as:

- A county CMH *agency*, which is an existing community mental health board that does not elect to convert itself into a community mental health organization or authority; or a CMH *organization* which is a joint enterprise created by two or more counties under P.A. 7 of 1967, the Urban Cooperation Act, that legally separates the entities from the counties that establish it. An organization is similar to an authority except that it is not available for single county boards and it does not have the same limit to local funding or a CMH *authority*.
- A CMH *authority* is still a governmental entity but is legally separate from the county or counties that establish it. All employees are employees of the authority and not the county. The authority must be certified by the Michigan Department of Community Health (MDCH) and it can exercise powers not accorded to CMH agencies, such as: acquiring, owning, operating, maintaining, leasing, or selling real or personal property; and acquiring, constructing, maintaining, or operating buildings or improvements.

The Board

On January 1, 1999, the Oakland County Community Mental Health Services Program became an Authority pursuant to an enabling resolution passed by the Oakland County Board of Commissioners in October 1998.

The current Oakland County Community Mental Health Authority Board is made up of 12 members appointed to staggered three-year terms so that four members' terms expire each year.

Medicaid History

In the state of Michigan, Medicaid was billed on a fee for service (FFS) basis throughout the mid-1980s until October 1998. The next phase in the devolution of responsibility from the State to the local level occurred in fiscal year 1998-1999 when the State implemented a 1915 (b) waiver in combination with an existing 1915 (c) waiver obtained from the Health Care Financing Administration (HCFA) for managed care for Medicaid enrollees in Michigan. The State carved out most of the mental health benefits and developmental disabilities services to the CMHs from the health plans delivering medical services. The CMHs signed a new kind of contract with the State for this carve out termed a Managed Specialty Services and Supports contract and accepted capitated funding for this managed care program. This Medicaid waiver and resultant contract provides for much greater flexibility in the delivery of services and supports to consumers. This managed care plan is based on the Michigan requirement for person-centered planning, does not allow for waiting lists for the service system, and maintains a "carve out" for specialty services/supports for the populations served under the Mental Health Code.

In 1998, CMHs were referred to as Pre-Paid Health Plans (PHPs) in the "carve out" and this term was maintained through the October 2000 contract renewal process. In 2002, CMH's were required to submit an Application for Participation (AFP) for scoring by the Michigan Department of Community Health in order to be considered eligible to qualify as an entity (PIHP, Prepaid Inpatient Health Plan) capable of administering the managed specialty services/supports under the waiver program.

One of the AFP requirements mandated a minimum number of Medicaid eligibles (20,000) in the respective catchment areas in order to submit an AFP. Oakland County CMH Authority qualified with 75,000 Medicaid eligibles and was awarded a successful score of 100 percent on its AFP and is today one of 18 PIHPs in Michigan.

Independent Auditors' Report

To the Board
Oakland County Community Mental Health Authority
Auburn Hills, Michigan

We have audited the accompanying financial statements of the business-type activities of Oakland County Community Mental Health Authority as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Oakland County Community Mental Health Authority as of September 30, 2007 and 2006 and the changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board
Oakland County Community Mental Health Authority
Auburn Hills, Michigan

Our audit was conducted for the purpose of forming opinions on Oakland County Community Mental Health Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also separately issued our report dated February 25, 2008 on our consideration of Oakland County Community Mental Health Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant, agreements, and other matters in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

February 25, 2008

Oakland County Community Mental Health Authority

Management's Discussion and Analysis

Analysis of Financial Operations for FY 2007

Oakland County Community Mental Health Authority has completed its operations for FY 2007. The results of which are contained in this set of audited financial statements. During FY 2007, OCCMHA continued to operate as a financially strong organization with enough resources and efficiencies to once again devise creative ways of enhancing and expanding services to the individuals we serve. The Authority, in partnership with our Core Provider Agencies, expanded and enhanced a variety of services including the following:

- Consumer housing initiative
- Dental
- Case management services
- Community living supports
- Additional outpatient clinical services
- Expanded clubhouse and peer delivered services
- Centralized access
- Direct care wage increase
- Employment initiative
- Geriatric services

The Authority continues to place emphasis on core financial activities and strategies to ensure current and future economic stability, appropriate allocation of resources across our network of providers, and efficient and effective use of the resources allocated. Some of these activities and strategies include:

- Internal controls over accounting and other fiscal activities
- Annual budget development and monitoring
- Contract and fiscal monitoring of Core Provider Agencies
- Utilization management strategies
- Cost Integrity Group cost analyses and strategies
- Extensive review and analysis of internal and external financial information
- Advocate for appropriate revenue allocation to the Authority from the State and monitor revenues and contract compliance
- Management practices enhanced by access to ever improving data history and analytical reporting tools
- Investment strategies in accordance with our approved investment policy
- Quality assessment strategies

This emphasis helped the Authority increase its organizational net assets to almost \$28 million.

Oakland County Community Mental Health Authority

Management's Discussion and Analysis (Continued)

Financial Statements

The Authority's financial statements include three statements: a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. All of these statements compare FY2007 results with FY2006 results. Major changes in results are explained in the following sections.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets

The presentation of the Authority's audited financial statements begins on page 10. The statement of net assets presents information about the resources and obligations of the Authority as of September 30, 2007. This statement includes all restricted and unrestricted assets and all liabilities. The statement of revenues, expenses, and changes in fund net assets presents the accumulated totals of all the revenue and expense transactions occurring during FY2007. The Authority uses the accrual basis of accounting, which means all of the FY2007 revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating.

Statement of Net Assets

The statement of net assets is a statement that shows the financial position of an organization at a particular point in time. When total assets exceed total liabilities the difference is expressed as net assets. Condensed financial information and explanations for accounts with significant variances from the prior years (see page 10 and 11) are provided below:

Net Assets (in thousands)			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Other assets	\$ 35,372	\$ 43,423	\$ 39,451
Capital assets - Net	4,633	4,782	4,831
Total assets	<u>40,005</u>	<u>48,205</u>	<u>44,282</u>
Liabilities:			
Other liabilities	10,134	19,848	15,929
Long-term liabilities	1,923	2,257	2,576
Total liabilities	<u>12,057</u>	<u>22,105</u>	<u>18,505</u>
Net assets:			
Restricted	3,781	6,453	6,059
Invested in capital assets - Net of debt	2,376	2,205	1,950
Unrestricted	21,791	17,442	17,768
Total net assets	<u>\$ 27,948</u>	<u>\$ 26,100</u>	<u>\$ 25,777</u>

Oakland County Community Mental Health Authority

Management's Discussion and Analysis (Continued)

Cash and Investments decreased from FY2006 to FY2007 by \$3,501,000 as result of the Authority paying the FY2006 final quarter's Quality Assurance Assessment Program (QAAP) tax obligation of \$2.7 million in October 2006 along with other unpaid current liabilities.

Accounts Receivable increased from FY2006 to FY2007 by \$890,000 as a result of the providers lapsing more dollars back to the Authority than in FY2006.

Due from/to other Funds decreased from FY2006 to FY2007 \$8,212,000. The current year decrease is the result of abating the General Fund Internal Service Fund (ISF) (\$2.9 million) plus an earlier transfer of \$5.5 million from the Operating Fund to a separate investment account for the ISFs, net of interest earned on invested risk reserve funds.

Due from State decreased from FY2006 to FY2007 \$961,000 due to the reductions in the HAB Supports Waiver and Children's Waiver Program accounts receivable.

Due to the State decreased from FY2006 to FY2007 \$2,088,000 mainly because the FY2006 fourth quarter QAAP payment of \$2.7 million had not yet been remitted to the State at year end. The effect of that payment was offset by a decrease in the amount due to the State for state facilities, which was related to a state rate reduction in FY2007.

Deferred Revenue decreased from FY2006 to FY2007 \$1,467,000. This decrease includes a decrease in the amount of General Fund carryforward from the prior fiscal year (\$650,000) and the recognition of the October 2006 local match revenues from Oakland County prepaid in September (\$802,000).

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during FY2007. The Authority receives the bulk of its revenues from Medicaid capitation payments, state General Funds, and Oakland County local match payments. These revenue sources account for approximately 99 percent of the Authority's revenues. This report can help identify potential problem areas that should be addressed by management. Condensed financial information and explanations for accounts with significant variances from the prior years (see page 12 and 13) are provided below:

Changes in Net Assets (in thousands)			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Medicaid	\$194,231	\$183,847	\$161,872
State General Funds	45,312	50,786	50,829
Other capitated	2,249	2,055	2,174
Local	9,384	9,908	9,869
Grants	1,452	1,074	924
Total revenues	252,628	247,670	225,668

Oakland County Community Mental Health Authority

Management's Discussion and Analysis (Continued)

Changes in Net Assets (Continued) (in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expenses:			
Administrative	\$ 9,321	\$ 9,220	\$ 8,779
Providers of services	204,286	202,229	191,166
State facilities	6,349	7,517	5,469
Other	32,054	29,732	17,861
Depreciation	279	245	220
Total expenses	252,289	248,943	223,495
Nonoperating revenues - Net	1,508	1,596	584
Change in net assets	\$ 1,847	\$ 323	\$ 2,757

Medicaid Revenues increased \$10,149,000 in FY2007 due to the combined effect of several components. An increase in the Medicaid eligible count and a small net increase in the Medicaid rates combined to account for part of the increase over FY2006. The third component is the additional Medicaid revenue related to the Quality Assurance Assessment Program (QAAP) over FY2006. These QAAP revenues are offset by the QAAP tax (\$10.9 million) which is included as other expenses above.

State General Fund Revenue decreased \$4,729,000 in FY2007 due to a reallocation of state funds of \$335,000, and to a reduction in state facilities revenue rates.

Adult Benefit Waiver Revenue increased \$204,000 in FY2007 due to increased enrollments.

Administration Expenses increased \$101,000 in FY2007 due primarily to increased information services costs. The Authority's administrative expenses are still below budget for the FY2007.

Net Core Provider Payments increased \$2,057,000 in FY2007 as the result of economic increases, direct care wage increase, and program enhancements instituted by the Authority during the year. These economic increases and enhancements were made to improve the delivery of services to our consumers.

State Facilities Expenses decreased \$1,168,000 during FY2007 due to decreased state charged rates net of increased utilization, due primarily to persons transferred from the Forensic Center.

Other Expenses decreased from FY2006 to FY2007 \$2,322,000 largely due to a reduction in community hospital expenses related to a change in incurred but not reported (IBNR) accrued expenses.

Statement of Cash Flows

The use of cash for operating activities exceeded cash receipts from the State and other governments by \$4,517,000 during FY2007. This negative operational cash flow was more than offset by the use of the General Fund ISF abatement, the General Fund Carry forward from FY2006 and Investment Income received in FY2007. Cash and Cash Equivalents increased \$9,231,000 in FY2007 as the Authority moved to a more liquid asset position in anticipation of the State budget problem which arose in October 2007. Overall, total Cash, Cash Equivalents and Investments decreased \$3,501,000 in FY2007 largely due the payment of the 4th quarter FY2006 QAAP tax to the State in FY2007.

Oakland County Community Mental Health Authority

Management's Discussion and Analysis (Continued)

Fiscal Year 2008

Significant events planned for FY2008:

- Enhancing the costing of services for consumers in Oakland County
- With our provider network, designing and developing processes and systems to provide individual budgets and costs reporting for our consumers
- Designing and developing an electronic, centralized medical records system
- Using recently collected data to improve outcomes for consumers served and improve clinical practices
- Implement our utilization management program that certifies Core Provider Agencies as Certified Utilization Management Agencies (CUMA)
- Continue to monitor and improve centralized access to ensure consumers have more uniform access to the mental health system
- Refine and enhance fiscal monitoring efforts and systems to continue to improve the quality of financial information at the Authority and our Core Provider Agencies
- Create contingency plans for potential future reductions in funding from the State
- Planning for FY2009 funding issues
- Developing a strategic plan that moves the Authority's vision, mission, and values into every day practice, including the development of funding strategies to support the vision.

The Authority remains optimistic about its ability to be competitive in the coming years. A critical part of the continued health of the Authority is to:

- Develop and implement consistent utilization management practices
- Continuously look for ways to create efficiencies and improve outcomes for the consumers we serve
- Ensure that consumers have access to necessary services
- Use of risk assessment and risk management strategies in development and monitoring of the annual budget
- Ensure a balanced budget for the Authority and its Core Providers
- Look for ways to maximize sources of revenue and seek out additional natural community supports for consumers

The Authority is a fiscally stable, efficient, and programmatically effective organization that focuses its resources on the most important aspects of our mission, supporting the advancement of social equity and improved quality of life for adults with serious mental illness, children with serious emotional disturbances, and people with developmental disabilities. We are proud of the progress this organization has made since becoming an authority in 1999. It is our goal to keep building on this success for this year and many years to come.

Contacting the Oakland County Community Mental Health Authority

This financial report is designed to provide all interested parties with an overall picture of the financial condition of the Oakland County Community Mental Health Authority and to show accountability for the money it receives. If you have any questions regarding the content of this report, please contact:

Budget and Finance
201 I Executive Hills Blvd.
Auburn Hills, MI 48326
1-248-858-1210

Oakland County Community Mental Health Authority

	2007		
	Business-type Activities		
	CMH	Internal	
	Operations	Service	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 18,016,133	\$ 5,515,345	\$ 23,531,478
Investments	5,724,263	-	5,724,263
Accounts receivable	2,332,503	-	2,332,503
Due from other funds	1,771,028	-	1,771,028
Due from primary government	17,184	11,907	29,091
Due from state	1,099,834	-	1,099,834
Interest receivable	130,190	24,557	154,747
Prepaid expenses	728,552	-	728,552
Total current assets	29,819,687	5,551,809	35,371,496
Capital assets (net of accumulated depreciation of \$952,879 in 2007 and \$1,811,628 in 2006)	4,633,191	-	4,633,191
Total assets	\$ 34,452,878	\$ 5,551,809	\$ 40,004,687
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 3,228,393	\$ -	\$ 3,228,393
Due to other funds	-	1,771,028	1,771,028
Due to State	3,067,795	-	3,067,795
Due to County	225,312	-	225,312
Accrued payroll and benefits	226,341	-	226,341
Accrued interest	62,149	-	62,149
Accrued compensated absences	197,259	-	197,259
Current portion - Long-term debt	334,195	-	334,195
Deferred revenue	1,021,880	-	1,021,880
Total current liabilities	8,363,324	1,771,028	10,134,352
Mortgage payable - Net of current portion	1,923,016	-	1,923,016
Total liabilities	10,286,340	1,771,028	12,057,368
Net assets:			
Invested in capital assets - Net of related debt	2,375,980	-	2,375,980
Restricted	-	3,780,781	3,780,781
Unrestricted	21,790,558	-	21,790,558
Total net assets	24,166,538	3,780,781	27,947,319
Total liabilities and net assets	\$ 34,452,878	\$ 5,551,809	\$ 40,004,687

See Notes to Financial Statements.

Statements of Net Assets - Proprietary Funds September 30, 2007 and 2006

		2006	
		Business-type Activities	
	CMH Operations	Internal Service	Total
\$	14,300,698	\$ -	\$ 14,300,698
	18,456,163	-	18,456,163
	1,443,158	-	1,443,158
	-	6,441,394	6,441,394
	16,154	11,907	28,061
	2,061,223	-	2,061,223
	120,116	-	120,116
	572,393	-	572,393
	36,969,905	6,453,301	43,423,206
	4,781,666	-	4,781,666
\$	41,751,571	\$ 6,453,301	\$ 48,204,872
\$	4,830,856	\$ -	\$ 4,830,856
	6,441,394	-	6,441,394
	5,155,501	-	5,155,501
	85,850	-	85,850
	224,137	-	224,137
	70,935	-	70,935
	230,938	-	230,938
	319,132	-	319,132
	2,489,129	-	2,489,129
	19,847,872	-	19,847,872
	2,257,211	-	2,257,211
	22,105,083	-	22,105,083
	2,205,323	-	2,205,323
	-	6,453,301	6,453,301
	17,441,165	-	17,441,165
	19,646,488	6,453,301	26,099,789
\$	41,751,571	\$ 6,453,301	\$ 48,204,872

Oakland County Community Mental Health Authority

	2007 Business-type Activities		
	CMH Operations	Internal Service	Total
Operating revenues:			
Medicaid:			
Medicaid - capitated	\$ 192,965,715	\$ -	\$ 192,965,715
Medicaid - child waiver (fee for service)	1,265,683	-	1,265,683
State General Funds:			
State general fund	40,391,742	-	40,391,742
State facilities	4,419,670	-	4,419,670
Categorical	500,794	-	500,794
Other capitated:			
Adult benefit waiver	2,114,882	-	2,114,882
MI child	134,323	-	134,323
Local:			
Transfer from Oakland County	9,620,616	-	9,620,616
Title XX	75,409	-	75,409
Other revenue	(312,611)	-	(312,611)
Grants:			
OBRA reimbursement	508,647	-	508,647
Grant revenue	943,326	-	943,326
Total operating revenues	252,628,196	-	252,628,196
Operating expenses:			
Program expenses:			
Administrative	9,321,009	-	9,321,009
Providers of services:			
Macomb Oakland Regional Center	118,576,086	-	118,576,086
Training and Treatment Innovations	15,676,281	-	15,676,281
Easter Seals	29,049,049	-	29,049,049
Common Ground Sanctuary	7,867,727	-	7,867,727
Community Housing Network	5,156,052	-	5,156,052
Community Network Services	27,960,838	-	27,960,838
State facilities	6,348,825	-	6,348,825
Community hospitals	9,527,393	-	9,527,393
Substance abuse	1,914,462	-	1,914,462
Purchased care services	5,885,479	-	5,885,479
Grants	943,326	-	943,326
Local match transfer - Medicaid drawdown	2,377,121	-	2,377,121
Quality Assurance Assessment (QAAP)	11,406,621	-	11,406,621
Non-program expenses - Depreciation	278,738	-	278,738
Total operating expenses	252,289,007	-	252,289,007
Operating income (loss)	339,189	-	339,189
Nonoperating revenues (expense):			
Investment income	1,426,289	194,869	1,621,158
Interest expense	(112,817)	-	(112,817)
Total nonoperating revenues	1,313,472	194,869	1,508,341
Income before transfers	1,652,661	194,869	1,847,530
Transfers	2,867,389	(2,867,389)	-
Change in net assets	4,520,050	(2,672,520)	1,847,530
Net Assets - Beginning of year	19,646,488	6,453,301	26,099,789
Net Assets - End of year	\$ 24,166,538	\$ 3,780,781	\$ 27,947,319

See Notes to Financial Statements.

**Statements of Revenues, Expenses, and Changes
in Fund Net Assets - Proprietary Funds
For the Years Ended September 30, 2007 and 2006**

CMH Operations	2006 Business-type Activities	
	Internal Service	Total
\$ 182,546,792	\$ -	\$ 182,546,792
1,300,000	-	1,300,000
45,120,319	-	45,120,319
5,165,411	-	5,165,411
499,845	-	499,845
1,910,448	-	1,910,448
144,786	-	144,786
9,620,616	-	9,620,616
75,409	-	75,409
212,450	-	212,450
462,297	-	462,297
612,102	-	612,102
247,670,475	-	247,670,475
9,220,386	-	9,220,386
117,323,710	-	117,323,710
15,787,643	-	15,787,643
29,188,272	-	29,188,272
7,129,190	-	7,129,190
5,116,551	-	5,116,551
27,683,585	-	27,683,585
7,516,999	-	7,516,999
8,996,484	-	8,996,484
1,860,850	-	1,860,850
4,955,661	-	4,955,661
612,102	-	612,102
2,377,121	-	2,377,121
10,929,858	-	10,929,858
245,273	-	245,273
248,943,685	-	248,943,685
(1,273,210)	-	(1,273,210)
1,400,807	322,869	1,723,676
(127,597)	-	(127,597)
1,273,210	322,869	1,596,079
-	322,869	322,869
(71,879)	71,879	-
(71,879)	394,748	322,869
19,718,367	6,058,553	25,776,920
\$ 19,646,488	\$ 6,453,301	\$ 26,099,789

Oakland County Community Mental Health Authority

	2007		
	Business-type Activities		
	CMH Operations	Internal Service	Total
Cash Flows from Operating Activities			
Cash receipts from the State and other governments	\$ 251,231,961	\$ -	\$ 251,231,961
Cash payments to suppliers	(248,928,556)	-	(248,928,556)
Cash payments to employees	(6,820,054)	-	(6,820,054)
Net cash provided by (used in) operating activities	(4,516,649)	-	(4,516,649)
Cash Flows from Noncapital Financing Activities -			
Transfers from (to) other funds	(5,345,033)	5,345,033	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(130,263)	-	(130,263)
Principal payments on long-term debt	(319,132)	-	(319,132)
Interest expense	(121,603)	-	(121,603)
Net cash used in capital and related financing activities	(570,998)	-	(570,998)
Cash Flows from Investing Activities			
Investment income	1,416,215	170,312	1,586,527
Net sale of investments	12,731,900	-	12,731,900
Net cash provided by investing activities	14,148,115	170,312	14,318,427
Net Increase in Cash and Cash Equivalents	3,715,435	5,515,345	9,230,780
Cash and Cash Equivalents - Beginning of year	14,300,698	-	14,300,698
Cash and Cash Equivalents - End of year	\$ 18,016,133	\$ 5,515,345	\$ 23,531,478
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 339,189	\$ -	\$ 339,189
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	278,738	-	278,738
Changes in operating assets and liabilities:			
Accounts receivable	(889,345)	-	(889,345)
Due from governments	960,359	-	960,359
Prepayments and other assets	(156,159)	-	(156,159)
Accounts payable	(1,602,463)	-	(1,602,463)
Due to governments	(1,948,244)	-	(1,948,244)
Accrued liabilities	(31,475)	-	(31,475)
Deferred revenue	(1,467,249)	-	(1,467,249)
Net cash provided by (used in) operating activities	\$ (4,516,649)	\$ -	\$ (4,516,649)

See Notes to Financial Statements.

**Statements of Cash Flows - Proprietary Funds
For the Years Ended September 30, 2007 and 2006**

2006		
Business-type Activities		
CMH Operations	Internal Service	Total
\$ 248,006,472	\$ -	\$ 248,006,472
(238,850,762)	-	(238,850,762)
(6,394,058)	-	(6,394,058)
2,761,652	-	2,761,652
322,869	(322,869)	-
(195,791)	-	(195,791)
(304,748)	-	(304,748)
(135,988)	-	(135,988)
(636,527)	-	(636,527)
1,374,737	322,869	1,697,606
1,533,755	-	1,533,755
2,908,492	322,869	3,231,361
5,356,486	-	5,356,486
8,944,212	-	8,944,212
\$ 14,300,698	\$ -	\$ 14,300,698
\$ (1,273,210)	\$ -	\$ (1,273,210)
245,273	-	245,273
720,355	-	720,355
(355,002)	-	(355,002)
(93,858)	-	(93,858)
(69,377)	-	(69,377)
3,630,266	-	3,630,266
(13,439)	-	(13,439)
(29,356)	-	(29,356)
\$ 2,761,652	\$ -	\$ 2,761,652

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note I - Summary of Significant Accounting Policies

The fund financial statements of Oakland County Community Mental Health Authority (the "Authority") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The more significant of the Authority's accounting policies are described below.

A. Reporting entity

The Authority, which is a governmental organization, was created under an agreement as authorized by Public Act 267 of 1976 for the purpose of providing services related to the mental health and developmental disability needs of Oakland County residents. The Authority's activities are funded through state allocations, federal grants, county appropriations, service fees, and local gifts and grants. The Authority's financial statements are included in the County of Oakland's ("County") Comprehensive Annual Financial Report for the year ended September 30, 2007 as a discretely presented component unit.

The Authority receives its revenues through state allocations as follows:

	Percent	
	<u>2007</u>	<u>2006</u>
General Fund	18	21
Medicaid	<u>77</u>	<u>74</u>
	<u>95</u>	<u>95</u>

B. Financial statement presentation

In 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Under GASB 34, the Authority is classified as a special purpose government and is required to present statements required for Enterprise Funds.

The Authority has one Internal Service Fund (Operating Risk Management Fund) and an Enterprise Fund (CMH Operating Fund). Since the measurement focus/basis of accounting is similar between Enterprise and Internal Service Funds, a government-wide financial statement and fund financial statement would present duplicate information, therefore, a separate government-wide statement has not been presented.

C. Fund accounting

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note I - Summary of Significant Accounting Policies (Continued)

C. Fund accounting (continued)

Proprietary Funds

Enterprise Fund - The CMH Operations Fund is used to account for those activities that are financed and operated in a manner similar to private business or where the Authority has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. There is one Enterprise Fund of the Authority which accounts for its general operations.

Internal Service Fund - The Operating Risk Management Fund is the Authority's Internal Service Fund. It accounts for any transactions related to the financing of potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health.

D. Basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Proprietary Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The Proprietary Funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net assets. Proprietary fund type operating statements present increases (revenues) and decrease (expenses) in net total assets.

E. Financial statement presentation

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the Authority's Enterprise Fund and Internal Service Fund are charges to customers from services. Operating expenses for the Enterprise and Internal Service Funds include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

F. Cash and cash equivalents

Cash and cash equivalents include depository accounts, and institutional money market accounts. For cash flow purposes, the Authority considers short-term investments with a maturity date of less than 90 days at the time of acquisition to be cash and cash equivalents.

G. Investments

Investments are stated at fair value, which approximates cost.

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note I - Summary of Significant Accounting Policies (Continued)

H. Interfund receivables/payables

During the course of operations, transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the statement of net assets.

I. Accounts receivable

Uncollectible receivables are expected to be immaterial and no allowance has been reserved.

J. Prepaid expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses in the accompanying statement of net assets.

K. Capital assets

Assets purchased whose value exceeds \$5,000 are capitalized and reported in the Proprietary Fund types. All purchased fixed assets are recorded at cost. Donated capital assets, if any, are valued at their estimated fair value on the date received. Capital assets are being depreciated on a straight-line basis over estimated useful lives of 5 to 30 years.

L. Restricted net assets

The Internal Service Fund assets are restricted for future uninsured losses as defined by state funding requirements.

M. Compensated absences

The Authority provides three types of compensated absences; vacation, sick, and personal time. Accumulated compensated absences are accrued when incurred.

N. Governmental Accounting Standards Board Statement 20

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, the Authority has elected not to apply the Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 to its Proprietary Funds.

O. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note 2 - Deposits and Investments

The captions on the financial statements for the deposits and investment accounts are as follows:

	Deposits	
	2007	2006
Cash and cash equivalents	\$ 23,531,478	\$ 14,300,698
Investments	5,724,263	18,456,163
	<u>\$ 29,255,741</u>	<u>\$ 32,756,861</u>

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has currently designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all the items listed above except mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk is that all securities transactions, except certificates of deposits, shall be conducted on a delivery-versus-payment basis. Securities will be held by a third-party custodian, as designated by the Authority, and shall be evidenced by a safekeeping receipt. Non-collateral, non-negotiable certificates of deposits, as allowed under Michigan law, shall be evidenced by a safekeeping receipt from the issuing bank. At year end, the Authority had \$23,514,953 of bank deposits (money market, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note 2 - Deposits and Investments (Continued)

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's policy for custodial credit risk is that all securities transactions, except certificates of deposits, shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian, as designated by the Authority, and shall be evidenced by a safekeeping receipt. Non-collateral, non-negotiable certificates of deposits, as allowed under Michigan law, shall be evidenced by a safekeeping receipt from the issuing bank. At September 30, 2007 and 2006, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

<u>Type of Investment</u>	<u>2007 Carrying Value</u>	<u>2006 Carrying Value</u>	<u>How Held</u>
Fannie Mae notes	\$4,376,790	\$ 7,335,026	Counterparty
Federal Home Loan Bank notes	99,704	4,263,450	Counterparty
Freddie Mac notes	1,247,769	6,857,687	Counterparty
	<u>\$5,724,263</u>	<u>\$18,456,163</u>	

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy states that the Authority will not directly invest in securities that mature more than three years from the date of purchase unless matched to a specific cash flow need. Funds with longer-term horizons may be invested in securities exceeding the three-year limitation provided that maturity dates coincide as near as possible with the expected use of the funds. As of September 30, 2007 and 2006, the respective average maturities of investments are as follows:

<u>2007</u> <u>Investment Type</u>	<u>Investment Maturities</u>		
	<u>Carrying Value</u>	<u>Less than One Year</u>	<u>One to Three Years</u>
Fannie Mae notes	\$ 4,376,790	\$ 4,376,790	\$ -
Federal Home Loan Bank notes	99,704	99,704	-
Freddie Mac notes	1,247,769	1,247,769	-
	<u>\$ 5,724,263</u>	<u>\$ 5,724,263</u>	<u>\$ -</u>
	100.0%	100.0%	0.0%

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note 2 - Deposits and Investments (Continued)

Interest rate risk (continued):

2006 <u>Investment Type</u>	<u>Investment Maturities</u>		
	<u>Carrying Value</u>	<u>Less than One Year</u>	<u>One to Three Years</u>
Fannie Mae notes	\$ 7,335,026	\$5,455,552	\$ 1,879,474
Federal Home Loan Bank notes	4,263,450	4,263,450	-
Freddie Mac notes	6,857,687	5,609,918	1,247,769
	<u>\$18,456,163</u>	<u>\$15,328,920</u>	<u>\$ 3,127,243</u>
	100.0%	83.1%	16.9%

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy further limits its investment choices to those with a market rate of return during an economic and budgetary environment of stable rates. As of September 30, 2007 and 2006, the respective credit quality ratings of debt securities (other than the U.S. government) are as follows:

2007 <u>Investment</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Fannie Mae notes	\$ 4,376,790	Aaa	Moody's
Federal Home Loan notes	99,704	Aaa	Moody's
Freddie Mac notes	<u>1,247,769</u>	Aaa	Moody's
	<u>\$ 5,724,263</u>		
2006 <u>Investment</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Fannie Mae notes	\$ 7,335,026	Aaa	Moody's
Federal Home Loan notes	4,263,450	Aaa	Moody's
Freddie Mac notes	<u>6,857,687</u>	Aaa	Moody's
	<u>\$18,456,163</u>		

Concentration of credit risk:

The Authority's investment policy limits any single security type to 40 percent of the investment portfolio. The policy also limits the total invested assets to no more than 40 percent of invested assets issued or managed by a single financial institution. As of September 30, 2007, the Authority has 35 percent of its total investment portfolio, including all deposits and all investments, with Fifth Third Bank. As of September 30, 2007, the Authority had the following percentages of the investment portfolio, including deposits and all investments, in the following security types: 34.3 percent in institutional money market funds, 33.4 percent in commercial paper, 15 percent in Fannie Mae funds, 12.7 percent in cash deposits, and 4.6 percent in Freddie Mac and Federal Home Loan funds.

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note 3 - Capital Assets

The capital assets additions, retirements, and balances in the Authority's Enterprise Fund for the years ended September 30, 2007 and 2006 are as follows:

	Balance September 30, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2007</u>
Capital assets being depreciated:				
Computer equipment	\$ 1,794,133	\$ 95,563	\$(1,145,051)	\$ 744,644
Furniture, fixtures, and equipment	66,400	32,950	-	99,350
Building	2,611,000	1,750	-	2,612,750
Building renovations	1,282,761	-	-	1,282,761
Subtotal	5,754,294	130,263	(1,145,051)	4,739,505
Less accumulated depreciation:				
Computer equipment	(1,390,614)	(130,369)	1,145,051	(375,932)
Furniture, fixtures, and equipment	(34,822)	(18,772)	-	(53,594)
Building	(261,101)	(87,033)	-	(348,133)
Building renovations	(125,091)	(42,564)	-	(167,655)
Subtotal	(1,811,628)	(278,738)	1,145,051	(945,314)
Net capital assets being depreciated	3,942,666	(148,475)	-	3,794,191
Land	839,000	-	-	839,000
Net capital assets	<u>\$ 4,781,666</u>	<u>\$(148,475)</u>	<u>\$ -</u>	<u>\$4,633,191</u>
Capital assets being depreciated:				
Computer equipment	\$ 1,605,948	\$ 188,185	\$ -	\$ 1,794,133
Furniture, fixtures, and equipment	58,794	7,606	-	66,400
Building	2,611,000	-	-	2,611,000
Building renovations	1,282,761	-	-	1,282,761
Subtotal	5,558,503	195,791	-	5,754,294
Less accumulated depreciation:				
Computer equipment	(1,288,054)	(102,560)	-	(1,390,614)
Furniture, fixtures, and equipment	(21,669)	(13,153)	-	(34,822)
Building	(174,067)	(87,034)	-	(261,101)
Building renovations	(82,565)	(42,526)	-	(125,091)
Subtotal	(1,566,355)	(245,273)	-	(1,811,628)
Net capital assets being depreciated	3,992,148	(49,482)	-	3,942,666
Land	839,000	-	-	839,000
Net capital assets	<u>\$ 4,831,148</u>	<u>\$ (49,482)</u>	<u>\$ -</u>	<u>\$ 4,781,666</u>

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note 4 - Defined Contribution Pension Plans

The Authority participates in a qualified defined contribution pension plan under IRS Code Section 401(a) managed and administered by the I.C.M.A. Retirement Corporation. This pension plan was established by the Authority to provide benefits at retirement to the Authority's employees. Plan members are not required to contribute to the plan but have the option of contributing up to 5 percent of covered salary depending on the date of hire, transfer from Oakland County, and union contracts. The Authority is required to contribute from 5 percent to 6 percent of covered payroll. Contributions made by the Authority progressively vest over seven years. Plan provisions and contribution requirements are established and may be amended by the Authority. Employer and employee contributions were made in the amount of \$278,001 and \$53,634, respectively, for the fiscal year ended September 30, 2007 and \$272,870 and \$56,336, respectively, for the fiscal year ended September 30, 2006.

The Authority has also elected to participate in a qualified defined contribution pension plan under IRS Code Section 401(a) in lieu of social security contributions for full-time and eligible part-time employees. The plan is managed and administered by I.C.M.A. Retirement Corporation. The plan requires contributions from qualified employees at a rate of 6.2 percent and a matching contribution from the Authority at a rate of 6.2 percent. Plan provisions and contribution requirements are established and may be amended by the Authority. Both employee and employer contributions are 100 percent vested at the time of contribution. Employer and employee contributions were made in the amounts of \$295,360 and \$283,961 for the years ended September 30, 2007 and 2006, respectively.

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. During the years ended September 30, 2007 and 2006, the Authority carried commercial insurance to cover all risk of losses, except for employee medical benefits, for which the Authority is self-insured. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in the past. The Authority has a stop-loss insurance policy for employee medical benefits of \$100,000 per specific claim per year/\$783,632 aggregate.

In addition to these coverages, the Authority has established an Internal Service Fund to cover any potential operating shortfalls under the terms of its contract with the Michigan Department of Community Health.

Note 6 - Long-term Debt

	Balance September 30, <u>2006</u>	<u>Reductions</u>	Balance September 30, <u>2007</u>	Due Within <u>One Year</u>
Mortgage loan with a finance company, payable in annual installments of \$440,736, including interest at 4.72%, secured by building, improvements, and real estate, due on March 10, 2013	\$ 2,576,343	\$ (319,132)	\$ 2,257,211	\$ 334,195

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note 6 - Long-term Debt (Continued)

	Balance September 30, <u>2005</u>	<u>Reductions</u>	Balance September 30, <u>2006</u>	Due Within <u>One Year</u>
Mortgage loan with a finance company, payable in annual installments of \$440,736, including interest at 4.72%, secured by building, improvements, and real estate, due on March 10, 2013	\$ 2,881,091	\$ (304,748)	\$ 2,576,343	\$ 319,132

The annual requirements to pay principal and interest on the outstanding loan obligations at September 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 334,195	\$106,541	\$ 440,736
2009	349,969	90,767	440,736
2010	366,488	74,248	440,736
2011	383,786	56,950	440,736
2012	401,902	38,834	440,736
2013	420,871	19,865	440,736
	<u>\$2,257,211</u>	<u>\$387,205</u>	<u>\$2,644,416</u>

Note 7 - Risk Reserve Fund Net Assets

Contributions to the Risk Reserve Internal Service Funds are considered eligible expenses under the MDCH contract, and accordingly are included on the statement of revenue, expenses, and changes in fund net assets in the various expenses categories. During the year ended September 30, 2007, \$2,867,389 of general funds in the Operating Risk Reserve Internal Service Fund were transferred to the CMH Operation Fund and utilized for program expenses during the year.

Note 8 - Interfund Receivables, Payables and Transfers

The Authority has the following interfund receivables and payable at September 30, 2007 and 2006:

	<u>2007</u>		<u>2006</u>	
	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Enterprise Fund - CMH Operations	\$ 1,771,028	\$ -	\$ -	\$6,441,394
Internal Service Fund - Operating Risk Reserve	-	1,771,028	6,441,394	-
Total	<u>\$1,771,028</u>	<u>\$1,771,028</u>	<u>\$6,441,394</u>	<u>\$6,441,394</u>

Transfers are made between the funds annually, to adjust the Internal Service Fund balance to the required amount.

Oakland County Community Mental Health Authority

Notes to Financial Statements September 30, 2007 and 2006

Note 9 - State General Fund Revenue

In 2007 and 2006, there existed State General Fund program funds received in excess of General Fund program expenses by approximately \$1 million and \$1.34 million, respectively. The excess is allowed to be retained by the Authority and expended on program needs in the next year. This amount is reflected as deferred revenue at September 30, 2007 and 2006. This 2006 excess was spent on program needs in 2007 and is reflected in the state General Fund revenue in 2007.

Note 10 - Contingencies

During a financial and compliance audit of the ISF Fund for the fiscal year ended September 30, 2005, the State DCH preliminarily disallowed the General Funds ISF in the amount of \$2,642,941 and the Medicaid ISF in the amount of \$5,224,044. The Authority is currently vigorously disputing the disallowance based on the belief that the Authority has appropriately supported the ISF Funds with historical data coupled with an estimate of the future as allowed under current state guidance. The Authority also believes there is other precedence that has been set confirming the methodology used by the Authority to support the ISF amounts. No provision for potential payback has been recorded as of September 30, 2007.

Note 11 - Subsequent Events

Subsequent to year end, \$5.5 million in funds from bonds issued by the Oakland County Building Authority were loaned to the Authority to purchase several consumer homes. It is expected that leases between the Authority and a sub-provider to operate the consumer housing units will occur.

Supplemental Information

Oakland County Community Mental Health Authority

	2007		
	Original Budget	Final Budget	Actual
Operating revenues:			
Medicaid - Specialty managed care capitation	\$ 185,041,200	\$ 191,575,440	\$ 192,965,715
Medicaid - Child waiver	1,300,000	1,000,000	1,265,683
State General Fund	45,469,298	44,659,243	40,391,742
Adult benefit waiver	2,031,123	2,031,123	2,114,882
State facilities	6,717,748	4,425,296	4,419,670
Transfers from Oakland County	9,620,616	9,620,616	9,620,616
MI child	146,758	135,302	134,323
Other revenue	2,600	6,000	(312,611)
Categorical	499,844	500,794	500,794
OBRA reimbursement	483,603	468,201	508,647
Grant revenue	649,071	1,018,013	943,326
Title XX	75,410	75,410	75,409
Total operating revenues	252,037,271	255,515,438	252,628,196
Operating expenses:			
Program expenses:			
OCCMHA administration	9,499,618	9,499,618	9,321,009
Macomb Oakland Regional Center	118,329,782	119,635,159	118,576,086
Training and Treatment Innovations	16,051,400	16,174,133	15,676,281
Easter Seals	29,265,812	29,445,629	29,049,049
Common Ground Sanctuary	7,885,563	8,251,815	7,867,727
Community Housing Network	5,150,838	5,150,838	5,156,052
Community Network Services	27,741,788	27,944,930	27,960,838
State facilities	7,602,866	6,850,218	6,348,825
Community hospitals	9,500,000	10,200,000	9,527,393
Substance abuse	2,014,920	2,014,920	1,914,462
Purchased care services	5,413,294	6,560,145	5,885,479
Grants	649,071	1,018,013	943,326
Local match transfer	2,377,116	2,377,116	2,377,121
Quality Assurance Assessment (QAAP)	11,196,062	11,517,692	11,406,621
Non-program expenses - Depreciation	238,324	238,324	278,738
Total operating expenses	252,916,454	256,878,550	252,289,007
Operating income (loss)	(879,183)	(1,363,112)	339,189
Nonoperating revenues (expense):			
Interest income	1,008,778	1,492,707	1,426,289
Interest expense	(129,595)	(129,595)	(112,817)
Total nonoperating revenues	879,183	1,363,112	1,313,472
Income before transfers	-	-	1,652,661
Transfers	-	-	2,867,389
Change in net assets	-	-	4,520,050
Net Assets - Beginning of year	19,646,488	19,646,488	19,646,488
Net Assets - End of year	\$ 19,646,488	\$ 19,646,488	\$ 24,166,538

**Statements of Revenues, Expenses, and Changes
in Fund Net Assets - Enterprise Fund - Budget to Actual
For the Years Ended September 30, 2007 and 2006**

Variance Favorable (Unfavorable)	2006		Variance Favorable (Unfavorable)
	Final Budget	Actual	
\$ 1,390,275	\$ 181,207,162	\$ 182,546,792	\$ 1,339,630
265,683	1,300,000	1,300,000	-
(4,267,501)	46,812,243	45,120,319	(1,691,924)
83,759	2,041,547	1,910,448	(131,099)
(5,626)	5,317,748	5,165,411	(152,337)
-	9,620,616	9,620,616	-
(979)	145,032	144,786	(246)
(318,611)	12,000	212,450	200,450
-	499,844	499,845	1
40,446	486,789	462,297	(24,492)
(74,687)	628,676	612,102	(16,574)
(1)	75,410	75,409	(1)
(2,887,242)	248,147,067	247,670,475	(476,592)
178,609	9,294,154	9,220,386	73,768
1,059,073	117,532,662	117,323,710	208,952
497,852	15,765,946	15,787,643	(21,697)
396,580	29,058,968	29,188,272	(129,304)
384,088	7,498,122	7,129,190	368,932
(5,214)	5,045,437	5,116,551	(71,114)
(15,908)	27,498,625	27,683,585	(184,960)
501,393	7,427,866	7,516,999	(89,133)
672,607	9,059,190	8,996,484	62,706
100,458	2,014,920	1,860,850	154,070
674,666	4,863,762	4,955,661	(91,899)
74,687	628,676	612,102	16,574
(5)	2,377,116	2,377,121	(5)
111,071	10,981,020	10,929,858	51,162
(40,414)	216,308	245,273	(28,965)
4,589,543	249,262,772	248,943,685	319,087
1,702,301	(1,115,705)	(1,273,210)	(157,505)
(66,418)	1,258,778	1,400,807	142,029
16,778	(143,073)	(127,597)	15,476
(49,640)	1,115,705	1,273,210	157,505
1,652,661	-	-	-
2,867,389	-	(71,879)	(71,879)
4,520,050	-	(71,879)	(71,879)
-	19,718,367	19,718,367	-
\$ 4,520,050	\$ 19,718,367	\$ 19,646,488	\$ (71,879)

Oakland County Community Mental Health Authority

	2007		
	Original Budget	Final Budget	Actual
Salaries and benefits	\$ 6,933,335	\$ 6,873,335	\$ 6,788,579
Accreditation	-	-	-
Advertising	14,263	14,263	21,542
Accounting and auditing services	68,112	68,112	79,549
Communications	50,344	50,344	58,388
Contracted services	49,472	49,472	78,378
Consulting services	681,753	681,753	626,083
Consumer initiatives	25,185	25,185	44,359
Copier charges	61,476	61,476	59,176
Expendable furniture and equipment	195,479	262,945	47,710
Memberships, dues, and publications	16,937	16,937	46,416
Information systems operations	21,123	21,123	18,951
Insurance	194,459	194,459	45,479
Legal services	34,963	34,963	31,505
Licenses and permits	41,993	41,993	82,954
Medical exams	700	700	-
Mileage	55,538	55,538	62,953
Miscellaneous	1,285	1,285	64
Per diems and fees	75,959	8,493	81,806
Postage	39,986	39,986	48,036
Printing	70,964	70,964	41,313
Provisions	28,950	28,950	22,190
Repairs and maintenance	520,173	580,173	694,579
Supplies	54,899	54,899	54,342
Transportation	2,640	2,640	3,683
Travel and conference	41,566	41,566	38,555
Training	157,575	157,575	173,743
Utilities	60,489	60,489	70,676
Total administrative expenses	\$ 9,499,618	\$ 9,499,618	\$ 9,321,009

Schedules of Administrative Expenses - Enterprise Fund
Budget to Actual
For the Years Ended September 30, 2007 and 2006

Variance Favorable (Unfavorable)	2006		Variance Favorable (Unfavorable)
	Final Budget	Actual	
\$ 84,756	\$ 6,950,562	\$ 6,380,619	\$ 569,943
-	1,386	-	1,386
(7,279)	33,653	13,932	19,721
(11,437)	96,401	55,441	40,960
(8,044)	47,270	53,558	(6,288)
(28,906)	32,490	50,840	(18,350)
55,670	738,336	829,061	(90,725)
(19,174)	32,599	27,392	5,207
2,300	27,945	54,534	(26,589)
215,235	82,565	168,578	(86,013)
(29,479)	13,108	34,614	(21,506)
2,172	42,413	27,539	14,874
148,980	172,701	201,195	(28,494)
3,458	85,992	40,237	45,755
(40,961)	34,619	75,503	(40,884)
700	415	575	(160)
(7,415)	33,982	56,763	(22,781)
1,221	82,600	5,446	77,154
(73,313)	19,313	76,227	(56,914)
(8,050)	44,049	47,624	(3,575)
29,651	70,462	75,583	(5,121)
6,760	31,661	30,452	1,209
(114,406)	330,627	557,063	(226,436)
557	52,199	58,644	(6,445)
(1,043)	10,976	4,792	6,184
3,011	36,996	38,794	(1,798)
(16,168)	121,568	190,492	(68,924)
(10,187)	67,266	64,888	2,378
\$ 178,609	\$ 9,294,154	\$ 9,220,386	\$ 73,768

Oakland County Community Mental Health Authority

**Federal Awards
Supplemental Information
September 30, 2007**

Oakland County Community Mental Health Authority

Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-9



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Independent Auditor's Report

To the Members of the Board
Oakland County Community
Mental Health Authority

We have audited the financial statements of the business-type activities of Oakland County Community Mental Health Authority as of and for the year ended September 30, 2007, which collectively comprise Oakland County Community Mental Health Authority's basic financial statements, and have issued our report thereon dated February 25, 2008. Those basic financial statements are the responsibility of the management of Oakland County Community Mental Health Authority. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Oakland County Community Mental Health Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

February 25, 2008

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Members of the Board
Oakland County Community
Mental Health Authority

We have audited the financial statements of the business-type activities of Oakland County Community Mental Health Authority as of and for the year ended September 30, 2007, which collectively comprise Oakland County Community Mental Health Authority's basic financial statements, and have issued our report thereon dated February 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oakland County Community Mental Health Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oakland County Community Mental Health Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oakland County Community Mental Health Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Members of the Board
Oakland County Community
Mental Health Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oakland County Community Mental Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

February 25, 2008

Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

To the Members of the Board
Oakland County Community
Mental Health Authority

Compliance

We have audited the compliance of Oakland County Community Mental Health Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2007. The major federal programs of Oakland County Community Mental Health Authority are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Oakland County Community Mental Health Authority's management. Our responsibility is to express an opinion on Oakland County Community Mental Health Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oakland County Community Mental Health Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Oakland County Community Mental Health Authority's compliance with those requirements.

In our opinion, Oakland County Community Mental Health Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

To the Members of the Board
Oakland County Community
Mental Health Authority

Internal Control Over Compliance

The management of Oakland County Community Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Oakland County Community Mental Health Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement for a major program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement for a major program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance that is material to a type of compliance requirement for a major program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance and its operation that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

February 25, 2008

Oakland County Community Mental Health Authority

Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

Federal Agency/Pass-through Agency Program Title	Contract Number	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through the Michigan Department of Community Health - Shelter Plus Care	20070485	14.238	\$ 425,518
U.S. Department of Health and Human Services - Passed through the Michigan Department of Community Health:			
PATH Grant	20060784	93.150	40,000
PATH Grant	20060785	93.150	83,500
Total PATH Grant			123,500
Block Grants for Community Mental Health Services:			
Community Network Services Anti-Stigma	20071339	93.958	70,605
Community Mental Health Satellite Office	20071339	93.958	54,205
Family Psychological Education	20061248	93.958	61,669
Community Network Services ICCD Training	20071339	93.958	4,805
Comfort Zone - Drop In Equipment	20060897	93.958	4,419
PMTO Training	20071339	93.958	10,067
Supported Housing for Young Adults	20071339	93.958	34,269
Mental Health Practice Improvements	20071339	93.958	34,030
Evidence Based Supported Employment	20071339	93.958	35,149
Celebrate Recovery	20071339	93.958	14,301
FAIR Drop In	20071339	93.958	3,622
Total Block Grants for Community Mental Health Services			327,141
Medical Assistance Program - OBRA/PASARR	N/A	93.778	381,485
Total U.S. Dept of Health and Human Services			832,126
Total Federal Expenditures			\$ 1,257,644

Oakland County Community Mental Health Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Oakland County Community Mental Health Authority and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Reconciliation to Fund Financial Statements

Revenue per the fund financial statements is as follows:

OBRA reimbursement	\$ 508,647
Grant revenue	943,326
Total	1,451,973
Less state funding of OBRA reimbursements and grants	194,329
Federal revenue per the schedule of expenditures of federal awards	<u>\$ 1,257,644</u>

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Current Year Cash Transferred to Subrecipient
U.S. Department of Housing and Urban Development - Passed through the Michigan Department of Community Health - Shelter Plus Care	14.238	\$ 425,518
U.S. Department of Health and Human Services: Passed through the Michigan Department of Community Health:		
PATH Grant	93.150	123,500
Block Grants for Community Mental Health Services	93.958	221,807
Medical Assistance Program	93.778	381,485
Total federal expenditures transferred		<u>\$ 1,152,310</u>

Oakland County Community Mental Health Authority

Schedule of Findings and Questioned Costs Year Ended September 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.238	Community Health - Shelter Plus Care
93.958	Block Grants for Community Mental Health Services

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low risk auditee? X Yes _____ No

Oakland County Community Mental Health Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

Section III - Federal Program Audit Findings

Reference Number	Findings
	None

February 25, 2008

To the Members of Management
Oakland County Community Mental Health Authority
Auburn Hills, Michigan

We recently completed our audit of the basic financial statements of Oakland County Community Mental Health Authority (the Authority) for the year ended September 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Supporting Documentation for Mental Health Block Grant

During testing of federal expenditures for A-133 reporting purposes, there was an instance where support for expenses submitted by a particular sub-recipient related to the Mental Health Block Grant was not available for review due to the fact that the records were initially reviewed by OCCMHA's purchasing agent on-line and no documentation of this review was retained. Support was later obtained by OCCMHA staff and provided to us and we confirmed agreement of the information to the final financial status report. We recommend that records (in electronic form) supporting expenses submitted by a sub-recipient be retained and readily available for review by finance personnel and third parties that might require documentation supporting sub-recipient expenses.

New Auditing Standards

Auditing Standards Continue to Change

Major and comprehensive changes were made to auditing rules (referred to as "Statements on Auditing Standards" (SAS #103-112) in 2006. Collectively, these new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for nonprofit organizations into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

Some of these new standards became effective for audits of financial statements dated December 31, 2006 and after. One of them, SAS 103, requires auditors to comply with very specific rules related to the form, content, and extent of audit documentation, including more thorough documentation of auditing procedures and results. Other new guidelines affect the audit evidence that must be obtained before an auditor can consider an audit complete.

Another new rule, SAS 112, requires auditors to more formally communicate matters they observe about their clients' accounting procedures and internal controls. Auditors are now required to inform clients about any "significant deficiencies" in accounting procedures or internal controls that come to their attention. Significant deficiency is a defined term that includes any flaw creating more than a remote risk of errors in financial statements that could reasonably matter to a user of the statements. Auditors must now communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for operations, in addition to management.

The remainder of the new rules (SAS 104-111) will become effective for audits of financial statements dated December 31, 2007 and later. These new rules, which are known collectively as the new Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules will also require increased audit testing and more thorough auditing procedures and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. We have invested significant time in training our staff on the new audit procedures. Our firm is currently implementing our new audit methodology for audits of clients with December 31, 2007 year ends.

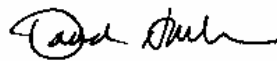
As we move forward, we will be communicating with you regularly about matters that will affect your next financial statement audit. In addition, we plan to begin to work with you during the upcoming year in a number of areas, including review and documentation of your internal accounting procedures and controls, to ensure a smooth transition to these new standards. We will be in contact with you in the near future to discuss these matters in more detail.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about your internal accounting and financial reporting processes and controls. We believe that these new rules and the additional communications you will receive from us about the results of our audit work will enhance the value you receive from your financial statement audit.

We would like to thank all of the Authority personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd Harburn, CPA

February 25, 2008

To the Members of the Board
Oakland County Community Mental Health Authority

We have recently completed our audit of the basic financial statements of Oakland County Community Mental Health Authority (the Authority) for the year ended September 30, 2007. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the audit committee, board of directors, and others within the organization.

Auditor's Responsibility Under Generally Accepted Auditing Standards

We conducted our audit of the basic financial statements of the Authority in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material affect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of the Authority's documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure or the entity's compliance with laws and regulations.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and regulations. To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. In accordance with regulatory requirements covering federal awards, supplemental testing of and reporting on internal controls and compliance was performed. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users still may be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended September 30, 2007, we were not engaged to nor did we perform the additional services listed in 1 and 2 above.

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. The most sensitive estimates affecting the financial statements are the settlement receivable and/or payables related to the contracts with the core providers and the payables related to the state facilities and community hospitals.

Management's estimate of the core provider settlements is currently recorded based on the difference between the contract not to exceed amount and the actual amount of the expenditures provided by the core provider to the Authority. Management's estimate of the payables related to the state facilities and community hospitals is based on the approved charges incurred prior to year end that are available to be billed to the Authority in the subsequent year. During the year, there was also a compliance audit performed by the Michigan Department of Community Health of the fiscal year 2005 contract in which MDCH preliminarily disallowed the ISF (General Fund and Medicaid) of approximately \$7.8 million. Management has determined that the initial disallowance will be resolved in the Authority's favor; therefore no liability for this contingency has been recorded at year end. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the fund financial statements taken as a whole.

Significant Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, however, no significant adjustments were made to the financial statements, but we did propose several nonsignificant audit adjustments to various accounts. Additionally, management posted several post closing entries during the course of the audit. All adjustments were recorded within the financial statements.

Disagreements with Management

There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation with Other Accountants

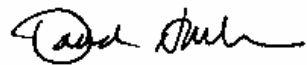
When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

* * * * *

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd Harburn, CPA